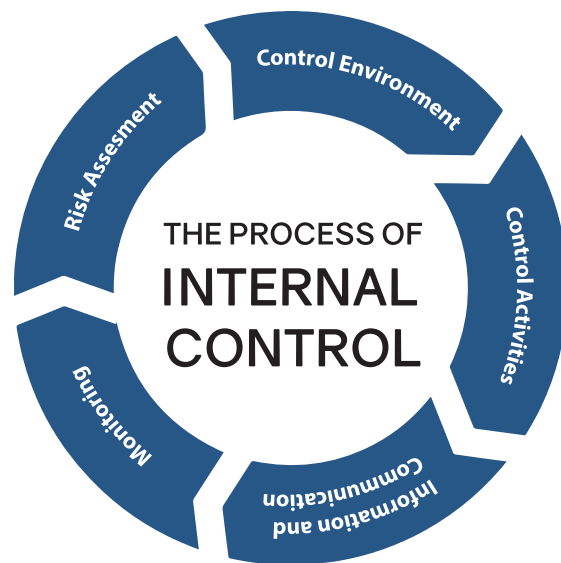


## IMPROVEMENT IN THE SABC'S INTERNAL CONTROL ENVIRONMENT

### 1. Battle for a clean administration

Over the past five to eight years, the SABC suffered **chronic governance failures** resulting in the collapse of the internal control environment, dysfunctional organisation, exposure to constant negative publicity and stakeholders and clients losing confidence. The **tangible costs** as a result of these failures were the losses suffered and instability in leadership positions.



The Institute of Internal Auditors define internal controls as the “foundation on which an effective system of internal control is built and operated in an organisation that strives to (1) achieve its strategic

objectives, (2) provide reliable financial reporting to internal and external stakeholders, (3) operate its business efficiently and effectively, (4) comply with all applicable laws and regulations, and (5) safeguard its assets”.

Therefore, it was clear to the new leadership that **enforcing good governance and internal controls** was the cornerstone of turning the SABC around. The envisaged controls are not a bureaucratic burden which stifles the SABC's agility and competitiveness but a set of activities and processes that are an integral part of SABC's daily operations at all levels.

**Ethical leadership** with high level of **Integrity** is **essential** as it supports good governance and internal controls to prevent the corporation's collapse. When this combination functions in an **integrated** manner, the internal control environment becomes stronger and consequently helps the SABC to **comply with the laws and regulations**, deliver value to its stakeholders and achieve the strategic objectives.



## 2. Past Audit outcomes

The table below depicts the improvements in the audit outcomes for the past four years,

Audit Outcomes

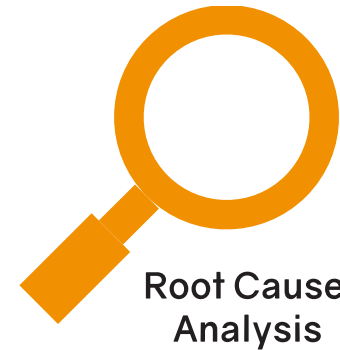
	2019/20	2018/19	2017/18	2016/17
<b>Overall audit opinion</b>	Qualified	Qualified	Disclaimer	Adverse
<b>Financial statements</b>				
Going concern	●	●	●	●
Property, plant and equipment	●	●	●	●
Programme, film and sports rights	●	●	●	●
Trade and other payables	●	●	●	●
Irregular expenditure	●	●	●	●
Taxation	●	●	●	●
Deferred government grants	●	●	●	●
Expenditure	●	●	●	●
<b>Performance information</b>	●	●	●	●
<b>Compliance</b>	●	●	●	●

Source: SABC annual report 2019/20

**Only two** of the ten focus areas were evaluated as green or satisfactory by the auditors in the 2017/18 financial year while the eight required thoughtful intervention, hence the disclaimer of opinion. It is observable that the internal control environment was so pitiable that the auditors viewed all identified misstatements as pervasive in nature.

## 3. Root causes

The following root causes resulted in the significant breakdown in internal control that the current leadership had to deal with;



- governance processes collapsed,
- policies review neglected,
- appointments made irregularly,
- unjustified salary adjustments,,
- staff moved to different units and different positions without merits,
- assurance units created others moved around to report in manner inconsistent to the legislation,
- Risk Management processes neglected, and

- external, internal and forensic audit recommendations not implemented.

These root causes demonstrates that SABC's ***culture and attitude*** towards ensuring sound internal controls and the expectations of standards of conduct within the organisation was very poor at the time.

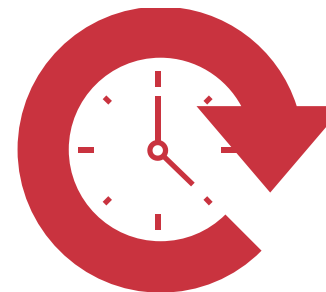
#### 4. Getting it right

The SABC ***improved the audit outcomes*** from a disclaimer (worst opinion) to a qualified opinion with findings relating to two areas i.e. irregular expenditure and compliance.



The efforts of the current board, executives and management have had a positive impact resulting in the ***improved internal controls*** and ***consequently improved audit outcomes***, however some attention is still required.

5. This is how the **turnaround process** unfolded;



### 24 Hour Turnaround

**Restore Governance:** It all started with the appointment of the resilient Board to exercises oversight responsibilities. Vacancies at executive level were filled with suitably qualified permanent executives thereby resolving the issue of instability of leadership and set the ***tone from the top***. Consequently, the assignment of roles to different Committees of the Board was seamless and all governance structures were restored to what the best practice dictates. This was the necessary first step to ensure that the turnaround strategy is successful.

**Review policies and procedures:** During the past three years, the SABC ***prioritised the review of internal policies*** and to date all critical policies were reviewed, updated and approved by the Board while. The updated policies were subsequent communicated to the SABC in general so that all the employees comply with the requirements of the updated policies. These policies will further ensure compliance and alignment with the ever-changing working environment and applicable laws and regulations.

**Enhance Enterprise Risk Management:** A risk assessment workshop was held with the Board, Executives, Risk Management unit and a service

provider to create a live working risk register document that details top five strategic risks and then cascading to the lower level units. Risk management process has also been improved through rigorous engagements and dedication shown by the Executives and the Audit and Risk Committee members. The appointment of the expert to assist the risk unit, the SABC and the Board resulted in a comprehensive document with improved quality of the risk management processes.

#### **6. Implement recommendations made by forensic audit:**

To create an ethical culture and root out unethical behaviours, all reported cases of non-compliance, corruption, unethical behaviours to date are captured in the case register, allocated and investigated. The progress towards implementation of the recommendations of the reports is tabled at Audit and Risk and Social and Ethics Committees of the Board who exercise oversight on management actions taken regarding these cases.

#### **7. Implementation of recommendations by Internal and External audit:**

To enhance the control environment, management was required to address these significant internal controls weaknesses within the prescribed timeframes through rigorous engagement and by implementing the identified feasible recommendations. Implementation of recommendations has seen significant progress and a number of audit recommendations tackle complex issues, requiring extensive consultations and negotiations as well as approvals involving a wide range of stakeholders. In some cases the implementation of audit recommendations can experience delays due to linkages with other initiatives making this process a wide issue requiring collaboration by divisions.

#### **8. Assessment of the internal control environment by Group Internal Audit**

Implementation of internal control systems is dependent upon people and therefore effectiveness of internal controls is directly proportional to staff willingness to adhere to them. Internal Audit has noted some improvements in areas such as updating of policies and procedures, overtime management, Information Technology environment and stability of leadership. Risk Management processes which saw the development of the strategic risk registers toward the end of the 2019-20 financial year also contributes the enhanced control environment. Significant improvements in compliance with supply chain management policies and processes have contributed to a decrease in the Irregular Expenditure.

#### **9. The process is still on-going**

The current leadership continues with the drive to improve internal controls and this is done through;

- setting “tone at the top” by implementing and promoting ethical standards, integrity, and accountability policies;
- Setting mission, goals and objectives (strategic planning) so the organization understands what to accomplish;
- Establishing fit-for-the-future structure, organizational responsibilities, reporting chains and hold people accountable;
- Hiring competent and trustworthy staff members and providing necessary training for these new staff members;

- Providing leadership and good governance by constantly monitoring operations and performance, and correcting problems when identified;
- Emphasizing that compliance with laws and regulations is the expectation for the organization; and
- Ensuring that goals and objectives are clear and not in competition with each other or compliance requirements.